

UPDATE: 2003 HMO RATES



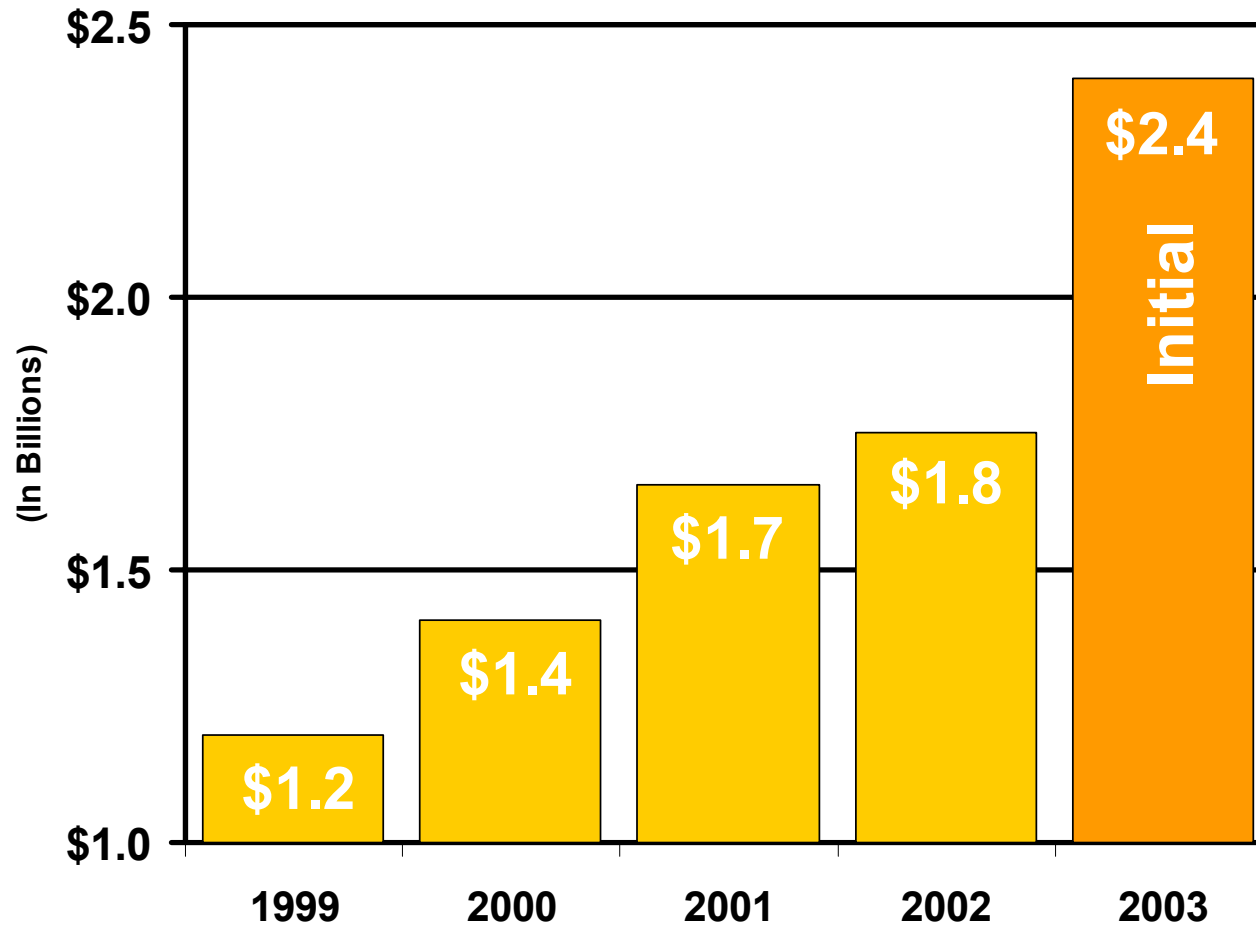
**CalPERS Board Closed Session
April 16, 2002**

The Problem



- Initial rates very high -- reflect continuing market deterioration
- Record gap between HMO proposed rates & justified target rates
- Additional loss of service area
 - 2 counties & 16,000 members without HMO option

Five-Year HMO Premiums



Initial Increases

Basic

Increase in %	
Highest	41.1%
Lowest	15.1%
Average	30.7%
*Increase in \$	
Highest	\$85
Lowest	\$27
Average	\$63

Medicare

Increase in %	
Highest	83.4%
Lowest	8.3%
Average	53.7%
*Increase in \$	
Highest	\$111
Lowest	\$22
Average	\$88

**Increase in Single Monthly Premium (before employer contribution)*

After Further Negotiation



- Marginal reductions in Basic
- Average increases still high
 - Basic plan = 30.06%
 - Medicare = 38.66%
- Blue Shield agreed to remain in counties; PacifiCare exiting 9 (& part of another)
 - One new county (Imperial) without HMO option -- 6,607 members currently in HMO

Board's Direction



Achieve four objectives:

- Maintain current benefits
- Maintain 2002 service area
- Maintain provider choice/care continuity
- Minimize cost increases for members & employers

Strategy



Pursue consolidation of three large network HMOs (Blue Shield, Health Net & PacifiCare) to one

Repricing Results



Blue Shield's proposal met the Board's four objectives:

- Maintains current HMO benefits
 - Premium reductions not based on benefit changes
- Preserves 2002 service area
 - 16,000 members don't lose HMO option

Repricing Results (contd)



- Preserves provider access/care continuity
 - 90% PCP match -- plan will increase match
- Minimizes cost increase for members & employers
 - Most members pay less for HMO coverage
 - \$77.2 million less total program cost
 - \$26.5 million less State cost

Basic & Medicare Rates

Response to Repricing

Basic	Single	2-Party	Family	% Increase
Blue Shield HMO	267.25	534.50	694.86	23.4%
Health Net	286.02	572.05	743.66	35.6%
PacifiCare	281.39	562.78	731.61	36.9%
Medicare	Single	2-Party	Family	% Increase
Blue Shield HMO	271.28	542.56	813.84	4.0%
Health Net	256.81	513.62	770.43	19.4%
PacifiCare	277.06	554.11	831.17	27.4%

Final Increases

Without Consolidation

Basic

Increase in %	
Highest	41.1%
Lowest	15.0%
Average	30.0%
*Increase in \$	
Highest	\$85
Lowest	\$27
Average	\$62

Medicare

Increase in %	
Highest	55.6%
Lowest	8.0%
Average	38.3%
*Increase in \$	
Highest	\$74
Lowest	\$21
Average	\$63

With Consolidation

Basic

Increase in %	
Highest	30.1%
Lowest	15.0%
Average	25.1%
*Increase in \$	
Highest	\$62
Lowest	\$27
Average	\$52

Medicare

Increase in %	
Highest	55.6%
Lowest	4.0%
Average	40.1%
*Increase in \$	
Highest	\$74
Lowest	\$10
Average	\$66

**Increase in Single Monthly Premium*

Consolidation's “Value Proposition”



- Added value offered by Blue Shield
- Potential for better partnership
- Price considered in relation to quality & service historically offered by 3 HMOs

Recommendation



- Consolidate from three large network HMOs to one
- Select Blue Shield as single large network HMO

Cost Avoidance



With consolidation (vs. without):

- Total HMO program: \$77.2 million less
- State contribution: \$26.5 million less
- Monthly premiums for nearly all members are lower with consolidation
 - Depending on how the employer contribution is calculated, some members will have out-of-pocket increases.

Cost Avoidance (contd)



- Family in Basic Plan (State) out-of-pocket costs with consolidation:
 - Family now in Blue Shield, HPR or Kaiser will pay approx \$18/month more.
 - Family in Health Net or PacifiCare will pay \$51/month less (than without consolidation)
 - Universal Care & WHA members will have no increase (\$0 out-of-pocket).

Cost Avoidance (contd)



- Medicare 2-party (State) out-of-pocket costs with consolidation:
 - Current members of PacifiCare, HPR & Health Net will pay approx \$2.50 to \$24/month more.
 - Current members of Blue Shield will have \$24/month less increase.
 - Kaiser, Universal Care & WHA members will have no increase.

Total HMO Program Costs

CalPERS HMO Annual Premium Estimates <i>(in Millions)</i>	2002	2003	Increase in Dollars
Total HMO Program Premium	1,751.7	2,210.0	458.3
Basic HMO Program Premium	1,630.7	2,040.2	409.5
Medicare HMO Program Premium	121.0	169.8	48.8

State Portion of Total HMO Premiums

CalPERS HMO Annual Premium Estimates (in Millions)			2002	2003	Increase in Dollars
Total State Program Premium (Employer & Member Combined)			1,030.1	1,301.8	271.7
Distribution of HMO State Premium	Employer	State Actives Employer Share of Premium	753.8	895.6	141.8
		State Annuitants Employer Share of Premium	193.0	258.3	65.3
	Members	State Actives Member Share of Premium	79.0	146.5	67.5
		State Annuitants Member Share of Premium	4.3	1.4	-2.9

Basic Premiums

HMOs	2002			2003			Increase in %
	<i>Single</i>	<i>2-Party</i>	<i>Family</i>	<i>Single</i>	<i>2-Party</i>	<i>Family</i>	
Blue Shield HMO	216.66	433.32	563.32	267.25	534.50	694.86	23.4%
HP Redwoods	206.58	413.16	537.11	242.58	485.16	630.71	17.4%
Kaiser	210.17	420.34	546.44	259.21	518.42	673.95	23.3%
Kaiser/Out of State	309.72	619.44	805.27	355.67	711.34	924.74	14.8%
Universal Care	168.61	337.22	438.39	201.16	402.32	523.02	19.3%
Western Health Adv.	181.65	363.30	472.29	208.90	417.80	543.14	15.0%
Weighted Average	209.53	418.84	543.41	261.82	523.48	680.49	25.1%*

*The weighted average includes the percentage increase that will be experienced by current HN and PCC members with consolidation.

Medicare Premiums

HMOs	2002			2003			Increase in %
	<i>Single</i>	<i>2-Party</i>	<i>Family</i>	<i>Single</i>	<i>2-Party</i>	<i>Family</i>	
Blue Shield HMO	260.85	521.70	782.55	271.28	542.56	813.84	4.0%
HP Redwoods	188.86	377.72	566.58	257.15	514.30	771.45	36.2%
Kaiser	133.43	266.86	400.29	207.62	415.24	622.86	55.6%
Kaiser/Out of State	155.11	310.22	465.33	175.60	351.20	526.80	13.2%
Universal Care	118.11	236.21	354.33	136.25	272.50	408.75	15.4%
Western Health Adv.	161.22	322.43	483.65	180.69	361.38	542.07	12.1%
Weighted Average	162.10	326.97	451.53	228.04	457.75	663.01	40.1%*

*The weighted average includes the percentage increase that will be experienced by current HN and PCC members with consolidation.

Monthly Out-of-Pocket Costs (with State Contribution)

State Actives	<i>Single</i>	<i>2-Party</i>	<i>Family</i>
<i>DPA Contribution Est¹</i>	\$226	\$449	\$587
Blue Shield HMO	41.25	85.50	107.86
HP Redwoods	16.58	36.16	43.71
Kaiser Permanente	33.21	69.42	86.95
Kaiser/Out of State	129.67	262.34	337.74
Universal Care	0.00	0.00	0.00
WHA	0.00	0.00	0.00
Medicare			
<i>State Annuitants²</i>	<i>Single</i>	<i>2-Party</i>	<i>Family</i>
<i>"100/90" Formula</i>	\$288	\$537	\$665
Blue Shield HMO	37.28	113.56	310.84
HP Redwoods	23.15	85.30	268.45
Kaiser Permanente	0.00	0.00	119.86
Kaiser/Out of State	0.00	0.00	23.80
Universal Care	0.00	0.00	0.00
WHA	0.00	0.00	39.07

¹Estimates based on DPA formula.

²The 2002 Medicare Part B premium of \$54 has been applied to 2003 premiums.

Operational Issues



- Blue Shield capacity:
 - CalPERS = 7% of Blue Shield's HMO "book of business." Plan has 2.3 million members in CA (1 million HMO; 1.3 PPO).
- CalPERS capacity:
 - Good track record with last Open Enrollment

In Conclusion. . .



Consolidation will:

- Achieve Board's objectives
- Support strategic planning direction
- **Provide best total value for greatest number of members**

Final Recommendation



- Consolidate 3 large network HMOs to 1
 - Blue Shield as single lg network HMO
- No new HMOs added
- Contract with Kaiser
 - No \$35 ER copay for Medicare
 - Deal with open issues in 2003 contract
- Contract with 3 regional HMOs (HPR, Universal Care & WHA)
 - Rate contingencies for Universal Care